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December 4, 2002

*BY ELECTRONIC FILING*

Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12th Street, S.W., Room TWB-204  
Washington, D.C. 20554

Re: In the Matter of: Review of the Section 251 Unbundling Obligations of  
Incumbent Local Exchange Carriers, CC Docket No. 01-338;  
Implementation of the Local Competition Provisions of the  
Telecommunications Act of 1996, CC Docket No. 96-98; Deployment of  
Wireline Services Offering Advanced Telecommunications Capability,  
CC Docket 98-147 - *Ex Parte* Notification

Dear Ms. Dortch:

Today, the undersigned, along with Gary P. Nuttall, Vice President, and Chief Technical Officer of Sage Telecom ("Sage"), met separately with Commissioner Martin and Daniel Gonzalez, Christopher Libertelli, and Matthew Brill to discuss Sage's position on various issues raised in the above-captioned dockets. The conversation focused on the use of the unbundled network element platform to provide competitive telephone services to residential and small business users in rural and suburban markets. A copy of the attached written *ex parte* was distributed at the meeting.

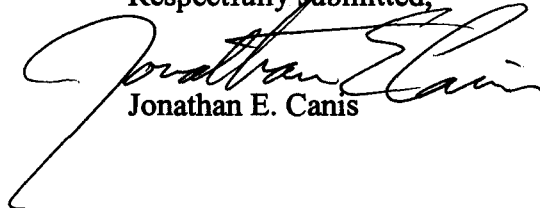
**KELLEY DRYE & WARREN LLP**

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In accordance with the Commission's rules, this letter (with attachment) is being filed electronically for inclusion in the public record for each of the above-referenced docketed proceedings. A copy of this submission is being provided to Commissioner Martin, Daniel Gonzalez, Christopher Libertelli and Matthew Brill.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jonathan E. Canis", written over a horizontal line.

Jonathan E. Canis

JEC/mad

cc: Commissioner Kevin Martin  
Daniel Gonzalez  
Christopher Libertelli  
Matthew Brill  
Qualex International



# **Competitive Choice in Rural and Suburban Markets**

CC Docket Nos. 01-338, 96-98 and 98-147

FCC Ex Parte

Dennis M. Houlihan, Chairman, President and CEO

Gary P. Nuttall, VP, Chief Technical Officer

# Sage Telecom



- Sage entered the local exchange market (Texas) in August 1998.
- Business model is based on one of the three methods of entry into local service markets stipulated by FTA 96: UNEs.
- Goal is to offer choice of local service provider to residential and small business customers in rural and suburban markets.

# Sage Telecom



- Invested heavily in back office systems designed specifically for UNE-P operations.
- Developed proprietary OSS systems, billing and customer care systems.
  - EDI Interface for 98% of orders.
  - Online trouble ticket maintenance.
  - Real time customer care processing.

# Sage Telecom



- Sage is:
  - Privately held.
  - Has Generated positive cash flow and profits for the last three years.
  - Debt free and has funded growth through internally generated free cash flow.
  - Recently received a \$30M equity investment from Summit Partners to fuel expansion into PacBell and the Ameritech states.

# Sage Results



- Sage serves 400,000 residential and small business customers in the SWBT region.
- 94% of access lines are residential customers in rural and suburban markets.
- 6% of lines are small business customers averaging 2.1 lines per account.

# Sage Results



- Customers are located in smaller markets outside major metropolitan areas.
- Customers are spread across 315 exchanges throughout the State of Texas.
- Customers are located in 60% of the counties in Texas.



# Sage Results



- Over 36% of residential customers live in counties with population densities of less than 100 people per square mile.
- Over 84% in areas of less than 500 people per square mile.
- Competitive choice would not exist for these customers without wide-scale use of UNE-P.

# Texas Customer Distribution



<b>Population Density per Square Mile</b>	<b># of Counties</b>	<b>Number of Lines</b>	<b>% Total Sage Res. lines</b>
<b>&lt;10</b>	<b>27</b>	<b>7,847</b>	<b>3.7%</b>
<b>≤10 &lt; 25</b>	<b>35</b>	<b>18,734</b>	<b>8.9</b>
<b>≤25 &lt; 50</b>	<b>25</b>	<b>20,511</b>	<b>9.7</b>
<b>≤50 &lt; 100</b>	<b>22</b>	<b>30,463</b>	<b>14.4</b>
<b>≤100 &lt; 500</b>	<b>27</b>	<b>101,702</b>	<b>48.1</b>
<b>≤500 &lt; 2600</b>	<b>8</b>	<b>32,291</b>	<b>15.3</b>
<b>Total</b>	<b>144</b>	<b>211,548</b>	<b>100.0</b>

# Texas Service Territories

**Sage**

TELECOM\*



# Critical Needs



- Continued availability of UNE-P at TELRIC is imperative in order to serve 400,000+ customers.
- No economical network alternative exists for serving a dispersed customer base due to:
  - Absence of clustering of residential customers.
  - Substantial distances between exchanges.
  - Unreliable and uneconomical backhaul facilities.

# Critical Impact



- Without access to UNE-P, Sage would need to collocate in 100s of end offices to serve rural and suburban markets.
- Even if viable switching and transport alternatives were available, each access line would have to be manually migrated.
- Normal churn would require continual and on-going migration between carriers.

# Conclusions



- Competitive choice for residential and small business subscribers will develop and prosper with economically available UNE-P.
- Other alternatives will require:
  - Economically viable and reliable solutions.
  - Critical customer mass.

# Conclusions



- Competitive choice in mass markets is still in the infancy stage:
  - Some states have not yet finalized rules governing competition. (ie IL and CA)
  - Ubiquitous choice of local service provider is not yet available to a wide-spread consumer market.
- Competition needs more time to develop.

# Conclusions



- State PUCs are best positioned to determine the need for regulatory changes in unbundled network elements based on local market competition.
- Without UNE-P, there will be no competitive options for residential and small business customers in the rural and suburban areas.
- With UNE-P, companies such as Sage can offer real competitive options.